Bank On It

Finance News You Can Count On

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Why Quarles & Brady

With experience handling a diverse array of financings, a deep bench of talent, and offices across the country, Quarles & Brady's commercial finance group is equipped to achieve results. After decades as a leader in commercial finance, we have established more than 175 relationships with financial institution clients nationwide. They range from national and regional banks that appreciate our broad geographic coverage and sophistication to local institutions that also value our efficiency and practical solutions.

*This issue of **Bank On It** explores Tax-Exempt Financing.*

Tax-Exempt Financing Can Result in Lower Project Costs

By Nathan S. Fronk

With the onset of the COVID-19 pandemic last year, many companies' construction projects stalled or were put on hold due to the uncertainty of what the future may bring. With spring and the construction season around the corner, vaccination efforts underway throughout the country, and a return to the new "normal" sometime in 2021, companies can again begin to focus on their future plans. If you or your customers are considering a potential renovation, expansion, acquisition or other construction project, now might be a good time to consider the savings available for projects that qualify for tax-exempt bond financing.

Why consider tax-exempt bond financing?

- **Lower interest rates.** The key benefit of tax-exempt financing is that it offers lower interest rates than taxable debt because the interest income paid to bondholders on tax-exempt debt is exempt from current federal income tax, and is often exempt from income tax of the state in which the bonds are issued as well. This means that a holder of a tax-exempt bond will accept a lower interest rate on the bonds. For example, a corporate bondholder could accept a 3.95% interest rate on a tax-exempt bond with the same income to the bondholder as a 5.00% taxable note. This means that tax-exempt financing for a $15,000,000 expansion project with a 30 year amortization and maturity, could save the company over $9,000 per month, which can equate to over $3,000,000 in project cost savings over the life of the bonds.

- **Longer Term Advantages.** For bonds with floating rates, the bonds will continue to have advantages over similar taxable financing as the rates adjust because the tax-exempt savings would apply to the adjusted rates as well. If sold in the public markets, tax-exempt debt may have other attractive features, including fixed rates and differences in equity and covenant requirements.

The savings that tax-exempt debt offers compared to traditional taxable loans can be significant. The interest rate savings may permit a company to build its project sooner, expand the scope of the project, or direct its cash flow to other purposes, including reduction of higher rate debt.

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If you or your customers are considering financing of $5,000,000 or more for a renovation, expansion, acquisition or other construction project, experienced bond counsel can help assess the company's ability to achieve the potential benefits of tax-exempt financing. A company that consults with bond counsel at an early phase of project planning can determine whether tax-exempt financing is available for the project and position itself to realize significant savings in project financing costs.

Quarles & Brady's Public Finance Team has broad experience with public and tax-exempt financing, including the type of bond financing discussed in this article.

For any questions regarding Tax-Exempt Financing contact your Quarles & Brady attorney or:

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